

FINANCIAL STATEMENTS AND REPORT OF
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS
SEDAN CITY HOSPITAL
SEPTEMBER 30, 2014 AND 2013

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees
Sedan City Hospital

We have audited the accompanying financial statements of the business-type activity of Sedan City Hospital (Hospital), as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the Hospital's financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit Guide. These standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activity of Sedan City Hospital as of September 30, 2014 and 2013, and the changes in its net position, and cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Other-Matters

The Hospital has omitted a management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Sedan City Hospital's basic financial statements as a whole. The accompanying supplementary information beginning on page 17 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Wendell Noel Nelson & Johnson 22c
Topeka, Kansas
September 18, 2015

FINANCIAL STATEMENTS

SEDAN CITY HOSPITAL
STATEMENTS OF NET POSITION
September 30,

ASSETS

	<u>2014</u>	<u>2013</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 378,814	\$ 165,701
Patient accounts receivable, net of allowance for doubtful accounts of \$319,840 in 2014 and \$326,868 in 2013	555,715	760,126
Sales tax and other receivables	36,803	36,000
Electronic health records incentive payment receivable	109,172	558,818
Inventories	132,638	118,138
Prepaid expenses	28,076	18,563
Estimated third-party payor settlements	<u>377,113</u>	<u>203,173</u>
Total current assets	<u>1,618,331</u>	<u>1,860,519</u>
ASSETS LIMITED AS TO USE		
Internally designated by the Board	<u>36,169</u>	<u>71,936</u>
CAPITAL ASSETS		
Land	12,137	2,100
Projects in progress		111,400
Depreciable capital assets, net	<u>1,037,397</u>	<u>1,251,616</u>
Total capital assets, net	<u>1,049,534</u>	<u>1,365,116</u>
OTHER ASSETS	<u>9,500</u>	<u>9,500</u>
Total assets	<u>\$ 2,713,534</u>	<u>\$ 3,307,071</u>

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>
CURRENT LIABILITIES		
Current maturities of capital leases payable	\$ 107,059	\$ 101,848
Line-of-credit payable	273,150	825,451
Accounts payable	517,535	464,229
Accrued expenses		
Salaries and related benefits	109,048	96,701
Vacation	56,234	70,727
Other	<u>16,565</u>	<u>17,110</u>
Total current liabilities	<u>1,079,591</u>	<u>1,576,066</u>
CAPITAL LEASE PAYABLE, net of current maturities	<u>80,390</u>	<u>187,449</u>
Total liabilities	<u>1,159,981</u>	<u>1,763,515</u>
NET POSITION		
Invested in capital assets - net of related debt	588,935	250,368
Unrestricted	<u>964,618</u>	<u>1,293,188</u>
Total net position	<u>1,553,553</u>	<u>1,543,556</u>
Total liabilities and net position	<u>\$ 2,713,534</u>	<u>\$ 3,307,071</u>

SEDAN CITY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
Year ended September 30,

	<u>2014</u>	<u>2013</u>
Operating revenues		
Net patient service revenue	\$ 4,080,910	\$ 3,622,213
Electronic health records incentive revenue	109,172	558,818
Other	<u>27,940</u>	<u>29,924</u>
Total operating revenues	<u>4,218,022</u>	<u>4,210,955</u>
Operating expenses		
Salaries and wages	1,798,898	1,719,668
Employee benefits	452,845	452,897
Supplies and other	1,717,140	1,323,640
Depreciation and amortization	<u>336,420</u>	<u>226,586</u>
Total operating expenses	<u>4,305,303</u>	<u>3,722,791</u>
Operating income (loss)	<u>(87,281)</u>	<u>488,164</u>
Nonoperating revenues (expenses)		
Sales tax revenue	139,199	146,255
Noncapital grants and contributions	2,479	11,065
Investment income	8,264	4,135
Interest expense	<u>(52,664)</u>	<u>(27,320)</u>
Total nonoperating revenues, net	<u>97,278</u>	<u>134,135</u>
Increase in net position	<u>9,997</u>	<u>622,299</u>
Net position at beginning of year		
As previously reported	1,209,727	921,257
Prior period adjustment to correct error	<u>333,829</u>	<u> </u>
As restated	<u>1,543,556</u>	<u>921,257</u>
Net position at end of year	<u><u>\$ 1,553,553</u></u>	<u><u>\$ 1,543,556</u></u>

The accompanying notes are an integral part of these statements.

SEDAN CITY HOSPITAL
STATEMENTS OF CASH FLOWS
Year ended September 30,

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Receipts from and on behalf of patients	\$ 4,111,381	\$ 3,263,828
Payments to or on behalf of employees	(2,254,434)	(2,148,316)
Payments to suppliers	(1,687,847)	(1,194,875)
Other receipts and payments	<u>585,955</u>	<u>29,924</u>
Net cash provided (used) by operating activities	<u>755,055</u>	<u>(49,439)</u>
Cash flows from noncapital financing activities		
Noncapital grants and contributions	2,479	11,065
Proceeds from sales tax	<u>139,199</u>	<u>142,357</u>
Net cash provided by noncapital financing activities	<u>141,678</u>	<u>153,422</u>
Cash flows from capital and related financing activities		
Interest paid	(52,664)	(27,320)
Principal and capital lease payments	(101,848)	(96,891)
Proceeds from line-of-credit	2,250	825,451
Principal payments on line-of-credit	(554,551)	
Purchase of capital assets	<u>(20,838)</u>	<u>(888,130)</u>
Net cash used by capital and related financing activities	<u>(727,651)</u>	<u>(186,890)</u>
Cash flows from investing activities		
Increase in assets limited as to use	35,767	(54)
Investment income received	<u>8,264</u>	<u>4,135</u>
Net cash provided by investing activities	<u>44,031</u>	<u>4,081</u>
Change in cash and cash equivalents	213,113	(78,826)
Cash and cash equivalents at beginning of year	<u>165,701</u>	<u>244,527</u>
Cash and cash equivalents at end of year	<u>\$ 378,814</u>	<u>\$ 165,701</u>

The accompanying notes are an integral part of these statements.

SEDAN CITY HOSPITAL
STATEMENTS OF CASH FLOWS - CONTINUED
Year ended September 30,

	<u>2014</u>	<u>2013</u>
Reconciliation of operating income to net cash provided (used) by operating activities		
Operating income	\$ (87,281)	\$ 488,164
Adjustments to reconcile operating income to net cash provided (used) by operating activities		
Depreciation and amortization	336,420	226,586
Provision for bad debts	285,146	302,155
Changes in		
Patient accounts receivable	(80,735)	(703,153)
Inventory and prepaid expenses	(24,013)	16,174
Electronic health record incentive receivable	449,646	(558,818)
Other assets	(803)	
Accounts payable and accrued expenses	50,615	136,840
Estimated third-party payor settlements	<u>(173,940)</u>	<u>42,613</u>
Net cash provided (used) by operating activities	<u>\$ 755,055</u>	<u>\$ (49,439)</u>

The accompanying notes are an integral part of these statements.

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
September 30, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

A summary of the significant accounting policies of Sedan City Hospital consistently applied in the preparation of the accompanying financial statements follows.

1. Reporting entity

Sedan City Hospital (Hospital) is a not-for-profit critical access hospital located in Sedan, Kansas. The Hospital was organized to provide acute care services for the benefit of the community and is owned by Sedan, Kansas, and is governed by a Board of Trustees appointed by the governing body of the City of Sedan, Kansas. The Hospital primarily earns revenue by providing inpatient acute and outpatient services to patients in Southeast Kansas.

The Hospital has an agreement where the management responsibilities of the Hospital are provided by Jane Phillips Memorial Medical Center, Inc., a charitable hospital located in Oklahoma, see Note J.

2. Basis of accounting

The Hospital utilizes the enterprise fund method of accounting whereby revenue and expenses are recognized on the accrual basis using the economic resources measurement focus. The Hospital is accounted for similar to an enterprise fund in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). The intent of an enterprise fund is to finance or recover, primarily through user charges, the costs (expenses, including depreciation) of providing goods and services to its users. An enterprise fund prepares operating statements using as its measurement focus the flow of economic resources. Such operating statements are designed to report events and transactions that increase or decrease an entity's economic resources (i.e., all assets and liabilities). Enterprise fund transactions are accounted for using the accrual basis, under which revenues are recorded when earned and expenses are recorded at the time the liabilities are incurred.

Balances classified as operating revenues and expenses are those that comprise the Hospital's principal ongoing operations. Since the Hospital's operations are similar to those of any health care provider, most revenues and expenses are considered operating.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Cash and cash equivalents

Cash and cash equivalents include highly-liquid investments with an original maturity of three months or less excluding any such amounts included with assets limited as to use.

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

5. Patient receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Unpaid patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying value of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write-off and recovery information in determining the estimated bad debt provision.

6. Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market.

7. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements and medical scholarships over which the Board retains control and may, at its discretion, subsequently use for other purposes.

8. Capital assets

Capital asset acquisitions in excess of \$5,000 (including assets recorded as capital leases) are stated at cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating gains and losses.

9. Grants and contributions

From time to time, the Hospital receives grants and contributions from individuals and private organizations. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014 and 2013

NOTE A - DESCRIPTION OF REPORTING ENTITY AND SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES - Continued

10. Restricted resources

When the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

11. Net position

Net position of the Hospital is presented in the following two components:

Net position invested in capital assets net of related debt consists of capital assets, net of accumulated depreciation and reduced by the current balances of any outstanding balances used to finance the purchase or construction of those assets.

Unrestricted net position - Unrestricted net position is the remaining net position that does not meet the definition of "invested in capital assets net of related debt" or "restricted."

12. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

13. Charity care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charity care provided by the Hospital is disclosed in Note B.

14. Income taxes

The Hospital is classified as a political subdivision and is exempt under Section 115 of the Internal Revenue Code and is exempt from federal taxes on related income pursuant to Section 115 of the Code and is not required to file federal income tax returns.

15. Restatements

The 2013 financial statements were restated to correct the recording of a Medicare cost report settlement for September 30, 2013. The restatement increased net assets, operating income, and the change in net position by \$333,829.

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014 and 2013

NOTE B - NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statements of net position as estimated third-party payor settlements consist of management's best estimate of the differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Payments to the Hospital under the critical access provisions for inpatient, outpatient, and swing-bed patient services are determined on the basis of allowable costs. The Hospital is paid for cost reimbursable and other services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare contractor. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare contractor through September 30, 2012.

Medicaid - Services rendered to Medicaid program beneficiaries, other than those covered by managed care plans, were paid under provisions applicable to critical access hospitals through December 31, 2012. Payments to the Hospital under the critical access hospital provisions are based on cost reimbursement methodologies used by the Medicare program. Medicaid has final-settled these cost reports through September 30, 2012. Effective January 1, 2013, inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are also paid at prospective rates determined on either a per diem or fee-for-service basis.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

A summary of Hospital gross and net patient service revenue is as follows:

	<u>2014</u>	<u>2013</u>
Gross patient service revenue	\$ 5,032,418	\$ 4,638,792
Deductions from patient service revenue		
Medicare and Medicaid contractual adjustments	(168,025)	(442,310)
Other contractals	(389,668)	(197,281)
Provision for bad debts	(285,146)	(302,155)
Charity care	<u>(108,669)</u>	<u>(74,833)</u>
Net patient service revenue	<u>\$ 4,080,910</u>	<u>\$ 3,622,213</u>

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014 and 2013

NOTE B - NET PATIENT SERVICE REVENUE - Continued

Revenue from the Medicare and Medicaid programs accounted for approximately 76 percent and 1 percent, respectively, of the Hospital's net patient service revenue during 2014, and 74 and 5 percent, respectively, of the Hospital's net patient service revenue during 2013. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change in the near term.

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20 percent, limited to 100 percent of the costs incurred and currently subjected to a 2 percent reduction for sequestration. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare & Medicaid Services (CMS). Payment under both programs is contingent on the Hospital continuing to meet meaningful use criteria and any other payment year under both programs is determined based upon an audit by the Medicare administrative contractor. As a result, there is at least a reasonable possibility that the final amounts could be materially different from the initial payments made under the program.

The Hospital has certified its EHR system and has accrued receivables in the amounts of \$109,172 and \$558,818 as of September 30, 2014 and 2013. The total of these payments is included in other operating revenue on the statement of revenues, expenses, and changes in net position for the years ended September 30, 2014 and 2013.

NOTE C - CAPITAL ASSETS

Capital assets consist of the following:

	Balance September 30, 2013	Additions	Disposals	Balance September 30, 2014
Land	\$ 2,100	\$ 10,038	\$ -	\$ 12,138
Land improvements	9,086			9,086
Buildings	367,144			367,144
Fixed equipment	203,476	10,800		214,276
Equipment	1,453,840	111,400		1,565,240
	<u>2,035,646</u>	<u>132,238</u>	<u>-</u>	<u>2,167,884</u>
Less accumulated depreciation and amortization	781,930	336,420		1,118,350
	1,253,716	(204,182)	-	1,049,534
Projects in progress	111,400	(111,400)		-
Capital assets, net	<u>\$ 1,365,116</u>	<u>\$ (315,582)</u>	<u>\$ -</u>	<u>\$ 1,049,534</u>

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014 and 2013

NOTE C - CAPITAL ASSETS - Continued

	Balance September 30, 2012	Additions	Disposals	Balance September 30, 2013
Land	\$ 2,100	\$ -	\$ -	\$ 2,100
Land improvements	58,618		49,532	9,086
Buildings	987,650	4,952	625,458	367,144
Fixed equipment	720,874	6,465	523,863	203,476
Equipment	<u>1,438,907</u>	<u>765,313</u>	<u>750,380</u>	<u>1,453,840</u>
	<u>3,208,149</u>	<u>776,730</u>	<u>1,949,233</u>	<u>2,035,646</u>
Less accumulated depreciation and amortization	<u>2,504,577</u>	<u>226,586</u>	<u>1,949,233</u>	<u>781,930</u>
	703,572	550,144	-	1,253,716
Projects in progress	<u>-</u>	<u>111,400</u>		<u>111,400</u>
Capital assets, net	<u>\$ 703,572</u>	<u>\$ 661,544</u>	<u>\$ -</u>	<u>\$ 1,365,116</u>

NOTE D - CASH AND DEPOSITS

Kansas statutes authorize the Hospital, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, the State Treasurer's municipal investment pool, and U.S. Treasury bills and notes. Also, statutes require that financial institutions pledge securities with a market value equal to total deposits in excess of FDIC coverage at any given time, and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, the Federal Home Loan Bank, or the Kansas State Treasurer.

At September 30, 2014, the carrying amount and book value of the Hospital's deposits with financial institutions was \$414,683 and the bank balances were \$454,216. Of the bank balances, \$250,000 was covered by FDIC insurance and \$204,216 was covered by pledged securities held by a third-party bank.

NOTE E - LEASES

The Hospital leases certain equipment under long-term lease agreements. Certain leases have been recorded as operating leases. Total lease expense for the years ended September 30, 2014 and 2013, for operating leases was \$48,781 and \$44,654, respectively.

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014 and 2013

NOTE F - CAPITAL LEASE PAYABLE

Capital lease payables are summarized as follows:

	<u>2014</u>	<u>2013</u>
Capital lease payable; implied interest rate of 5.00%; payable in monthly installments of \$9,500 through June 2016	\$ 187,449	\$ 289,297
Less current portion	<u>107,059</u>	<u>101,848</u>
Noncurrent portion	<u>\$ 80,390</u>	<u>\$ 187,449</u>

The following is a summary of changes in capital lease obligations:

	Balance September 30, 2012	Additions	Reductions	Balance September 30, 2013
Capital leases	<u>\$ 386,188</u>	<u>\$ -</u>	<u>\$ 96,891</u>	<u>\$ 289,297</u>
	Balance September 30, 2013	Additions	Reductions	Balance September 30, 2014
Capital leases	<u>\$ 289,297</u>	<u>\$ -</u>	<u>\$ 101,848</u>	<u>\$ 187,449</u>

Scheduled capital lease payments are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 107,059	\$ 6,941	\$ 114,000
2016	<u>80,390</u>	<u>1,626</u>	<u>82,016</u>
	<u>\$ 187,449</u>	<u>\$ 8,567</u>	<u>\$ 196,016</u>

NOTE G - LINE-OF-CREDIT

At September 30, 2014, the Hospital has an unused line-of-credit available of \$79,984. Proceeds from the line-of-credit were used to acquire certified electronic health records software and accrues interest at 5 percent. The line-of-credit matures on September 30, 2015.

Summary of line-of-credit activity by year is as follows:

	<u>2013</u>	<u>2014</u>
Balance at beginning of year	\$ -	\$ 825,451
Principal advances during the year	825,451	2,250
Principal payments during the year	<u> </u>	<u>(554,551)</u>
Balance at end of year	<u>\$ 825,451</u>	<u>\$ 273,150</u>

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014 and 2013

NOTE H - RETIREMENT PLAN

The Hospital offers a 403(b) tax sheltered annuity plan to employees. Currently, the Hospital does not make contributions on behalf of the employee. Employees are allowed to make elective or after-tax contributions to the plan. There are certain limitations imposed by the IRS for the total amount of annual contributions that may be made to an employee's 403(b) account and limits on the amount of elective deferrals that employees may make to a 403(b) plan. Distributions may generally be made because of the employee's death, disability, severance from employment, attainment of age 59-1/2 or, in the case of salary reduction contributions, financial hardship.

NOTE I - CONCENTRATION OF CREDIT RISK

The Hospital is located in Sedan, Kansas. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	<u>2014</u>	<u>2013</u>
Medicare and Medicaid	38%	55%
Other third-party payors	29	18
Patients	<u>33</u>	<u>27</u>
	<u>100%</u>	<u>100%</u>

NOTE J - OTHER RELATED PARTY TRANSACTION

The Hospital has entered into a management agreement with Jane Phillips Medical Center. The Hospital incurred expenses of \$171,935 and \$180,643 for these services for the years ended September 30, 2014 and 2013, respectively. At September 30, 2014 and 2013, the Hospital owed \$423,744 and \$271,809, respectively, to Jane Phillips Medical Center. The amounts owed are included in accounts payable on the statements of net position.

NOTE K - RISK MANAGEMENT

For the years ended September 30, 2014 and 2013, the Hospital was insured for hospital professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of \$200,000 per occurrence up to an annual aggregate of \$600,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to \$800,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of \$2,400,000. All coverage is on a claims-made basis. The above policies were renewed on January 1, 2014, for the policy period from January 1, 2014 to January 1, 2015.

SEDAN CITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS - CONTINUED
September 30, 2014 and 2013

NOTE K - RISK MANAGEMENT - Continued

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE L - SUBSEQUENT EVENTS

Management has evaluated all subsequent events through the date of the independent certified public accountants' report, which is the date the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

SEDAN CITY HOSPITAL
PATIENT SERVICE REVENUE
Year ended September 30,

	2014			2013		
	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>	<u>Inpatient</u>	<u>Outpatient</u>	<u>Total</u>
Daily patient services						
Emergency room	\$ 8,906	\$ 568,696	\$ 577,602	\$ -	\$ 794,690	\$ 794,690
Routine care	<u>625,577</u>	<u>238,288</u>	<u>863,865</u>	<u>588,829</u>	<u>169,719</u>	<u>758,548</u>
	<u>634,483</u>	<u>806,984</u>	<u>1,441,467</u>	<u>588,829</u>	<u>964,409</u>	<u>1,553,238</u>
Other professional services						
Central supply	14,362	18,957	33,319	44,878	23,076	67,954
Laboratory	387,660	701,784	1,089,444	344,243	645,281	989,524
Pharmacy	190,803	137,782	328,585	211,954	191,345	403,299
Therapy services	105,792	588,175	693,967	68,713	172,272	240,985
Radiology	229,803	885,795	1,115,598	155,921	809,604	965,525
Respiratory therapy	27,065	4,836	31,901	100,210	9,146	109,356
Wellness center			-		250	250
Wound care	301	295,807	296,108	1,008	307,653	308,661
Dietary		<u>2,029</u>	<u>2,029</u>			
	<u>955,786</u>	<u>2,635,165</u>	<u>3,590,951</u>	<u>926,927</u>	<u>2,158,627</u>	<u>3,085,554</u>
Gross patient services revenue	<u>\$ 1,590,269</u>	<u>\$ 3,442,149</u>	<u>5,032,418</u>	<u>\$ 1,515,756</u>	<u>\$ 3,123,036</u>	<u>4,638,792</u>
Less adjustments						
Third-party contractual allowances			557,693			639,591
Charity care			108,669			74,833
Provision for bad debts			<u>285,146</u>			<u>302,155</u>
Total contractual adjustments			<u>951,508</u>			<u>1,016,579</u>
Net patient service revenue			<u>\$ 4,080,910</u>			<u>\$ 3,622,213</u>

SEDAN CITY HOSPITAL
OTHER REVENUE
Year ended September 30,

	<u>2014</u>	<u>2013</u>
Other revenue		
Cafeteria	\$ 4,418	\$ 3,246
Central stores	115	
Pharmacy rebates	3,994	
Medical records	686	744
Rental income	18,000	19,775
Vending	<u>727</u>	<u>6,159</u>
Total other revenue	<u>\$ 27,940</u>	<u>\$ 29,924</u>

SEDAN CITY HOSPITAL
OPERATING EXPENSES BY FUNCTIONAL DIVISION
Year ended September 30,

	2014			2013		
	<u>Salaries</u>	<u>Supplies and expenses</u>	<u>Total</u>	<u>Salaries</u>	<u>Supplies and expenses</u>	<u>Total</u>
Daily patient services						
Emergency room	\$ 384,017	\$ 275,624	\$ 659,641	\$ 410,917	\$ 128,524	\$ 539,441
Routine care	617,527	92,844	710,371	556,134	85,565	641,699
	<u>1,001,544</u>	<u>368,468</u>	<u>1,370,012</u>	<u>967,051</u>	<u>214,089</u>	<u>1,181,140</u>
Other professional services						
Central supply	44,784	24,683	69,467	43,361	27,686	71,047
Laboratory	176,325	236,559	412,884	162,971	222,469	385,440
Pharmacy	3,986	108,612	112,598	4,014	95,758	99,772
Therapies	4,196	190,518	194,714	6,777	58,626	65,403
Radiology	139,647	31,973	171,620	127,768	44,149	171,917
Wound care	7,670	128,101	135,771	7,326	132,950	140,276
	<u>376,608</u>	<u>720,446</u>	<u>1,097,054</u>	<u>352,217</u>	<u>581,638</u>	<u>933,855</u>
General services						
Dietary	70,599	27,190	97,789	60,931	27,480	88,411
Housekeeping	43,928	14,842	58,770	41,691	12,284	53,975
Laundry and linen		16,932	16,932		15,264	15,264
Medical records	55,943	26,071	82,014	63,171	19,817	82,988
Operation of plant	33,621	191,305	224,926	33,336	158,857	192,193
	<u>204,091</u>	<u>276,340</u>	<u>480,431</u>	<u>199,129</u>	<u>233,702</u>	<u>432,831</u>
Administrative services						
Administrative	216,655	351,886	568,541	201,271	294,211	495,482
Employee benefits		452,845	452,845		452,897	452,897
	<u>216,655</u>	<u>804,731</u>	<u>1,021,386</u>	<u>201,271</u>	<u>747,108</u>	<u>948,379</u>
Depreciation	-	336,420	336,420	-	226,586	226,586
Total expenses	<u>\$ 1,798,898</u>	<u>\$ 2,506,405</u>	<u>\$ 4,305,303</u>	<u>\$ 1,719,668</u>	<u>\$ 2,003,123</u>	<u>\$ 3,722,791</u>